

Financial HORIZONS

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Director's Message *ASRS Director Paul Matson*

Welcome to our spring issue of *Financial Horizons*. Although this issue has a new look and is filled with information I hope you find useful, I would like to use

this particular Director's Message to update our members and retirees on two recent service-related issues that negatively affected some of our members and, as such, caused us concern at the ASRS. If you were one of the members affected, thank you for letting us know directly, as you enabled us to quickly remedy the situations.

The first issue has to do with April benefit payments and notifications. Specifically, a number of retirees experienced delays of up to several days in receiving through the regular mail either their monthly benefit check or Direct Deposit Summary. The electronic deposits of actual funds were not affected and were completed in a timely manner. We have investigated the problem and have determined that the

cause of the delayed mailings involved:

1. A one-day delay by our custody bank in the mailing of the Direct Deposit Summaries
2. A several-day delay in the regular postal service, most significantly caused by increased seasonal mail volume.

Understanding what caused the delay has enabled us to put together a series of processes, such as enhanced forecasting of U.S. Postal service bottlenecks, which will reduce the likelihood of such delays occurring in the future.

Irrespective of the processes that we have introduced to date, however, we cannot control holiday and other peak bottlenecks in the mail service and cannot always forecast interruptions that might be caused by inclement weather. As such, I always suggest that any of our retirees or LTD recipients who receive their benefit check by mail - especially those who require cash balances on exact dates - consider signing up for the ASRS direct deposit. Direct deposit is

Director, continued on page three

New Supplemental Retirement Savings Plan

The ASRS is pleased to announce a new defined contribution plan, the ASRS Supplemental Retirement Savings Plan (SRSP), available to eligible active members. A similar plan will be offered to state and university employees by the Arizona Department of Administration (ADOA).

The new plan is qualified under Section 401(a) of the Internal Revenue Code and allows eligible members to contribute tax-deferred money into an account which can be drawn upon in retirement.

The SRSP program will be offered voluntarily to ASRS employer partners. Members will be eligible to participate only if their employer

signs up for the new plan.

Participants may elect to defer up to 100 percent of pay or \$45,000, whichever is lower. This limit is higher than limits for the 457 or 403(b) plans offered to many ASRS members by their employers. In addition, the SRSP permits loans, which many 457 and 403(b) plans do not.

Due to the distinctive features and benefits of the SRSP, the Internal Revenue Service requires significant restrictions that are unique from regulations governing 457 and 403(b) savings plans. These restrictions include an irrevocable election to participate with a two-year window of opportunity and an irrevocable

SRSP, continued on page two

election to contribute over time.

Nationwide Retirement Solutions, one of the largest financial services companies in the United States, has been selected as the administrator of the SRSP. Through Nationwide, SRSP participants will have access to a diverse selection of investment choices they can manage, as well as high-quality customer service including telephone and web access to accounts.

The SRSP is offered in addition to the ASRS Defined Benefit Plan, the primary pension plan which provides members a lifelong income upon retirement. To be financially secure during retirement it is suggested that individuals have other income sources, such as Social Security and personal savings. The SRSP may be a convenient way to augment personal savings for some members.

The ASRS, through Nationwide, is currently in the process of employer sign-ups. Employees can expect additional information from their benefits department. For additional information, please contact Nationwide at (602) 266-2733 or (888) 224-1011. ♦

New Retiree First Pension Check

ASRS Improves Timeline for Issuing First Pension Benefit Checks to New Retirees

In an ongoing effort to improve services to our members, the Arizona State Retirement System has revised procedures for disbursing the initial benefit check to new retirees. An initial estimated retirement check will now be processed within 10 days of the applicant's retirement date, much quicker than the previous timeframe which had been between 30 and 75 days, depending upon the retirement date selected.

"This new process will make for a much more convenient financial transition into retirement for our members," ASRS Director Paul Matson said. "It will mean virtually no disruption in moving from receiving a regular paycheck to receiving a retirement benefit check."

Improving the time it takes to issue the first retirement check is an outcome of the ASRS's major information technology project, which was introduced to improve service throughout the agency. A team of ASRS staff representing

various departments, including Member Services, Financial Services and Information Services, worked on the six-month project to develop the new, automated procedures that will benefit new retirees.

The initial check that will be mailed within 10 days, or sent by direct deposit if the member chooses, represents a prorated estimate of the retiree's net monthly benefit. It can sometimes take up to 60 days to fully process a retirement application with a final benefit calculation. That's because the ASRS often receives contributions on behalf of the new retiree from their employer after their effective retirement date.

Retirees may receive up to three estimate checks prior to an application being completed, processed, and audited. A final benefit is calculated after all contributions are received, all applicable service purchase credits are made, and health insurance premiums are determined, as well as other benefit options retirees may choose. ♦

Contribution Rates Increase Set for Fiscal Year 2007-08

The Arizona State Retirement System will implement an increase in contribution rates for the 2007-08 fiscal year.

Based on an annual actuarial analysis of the defined benefit plan, health insurance premium benefit and long term disability program, the total contribution rate will increase from 9.1 percent this year to 9.6 percent beginning July 1, 2007. Because the ASRS pension plan is a match plan, the contribution rate is equal for both the employee and the employer.

The ASRS Board of Trustees accepted the

annual actuarial valuation at its November 17 meeting, which determined a combined contribution rate of 9.1 percent for the defined benefit plan and health insurance premium benefit, and 0.5 percent for the long term disability income plan. The LTD rate has remained steady the past five years.

The overall increase is primarily due to past improvements to the benefit package, low historic contribution rates, lower mid-term investment returns, and changing member demographics. Strong investment performance has helped mitigate larger increases in the contribution rate. ♦

	ASRS Contribution Rate		
	Fiscal 2007-08 (Effective July 1, 2007)		
	Retirement Pension & Health Insurance Benefit	Long Term Disability Income Plan	TOTAL
Employee	9.10%	0.50%	9.6%
Employer	9.10%	0.50%	9.6%

PBI Update

Permanent Benefit Increase Account Remains Unfunded

Prior to the start of each fiscal year, July 1, the Arizona State Retirement System announces whether a permanent benefit increase (PBI) will be distributed to retirees receiving a monthly benefit check. Funds for a PBI are generated by excess earnings on the actuarial value of assets of the ASRS fund. Although the PBI helps mitigate inflation, it is not tied to the federal Cost of Living Index, and is not guaranteed. Distribution of the PBI is defined in state statute and determined based upon average excess returns.

The most recent average excess returns are insufficient to award an additional PBI for fiscal year 2007.

Retirees of the Defined Benefit Plan who have received PBI increases in previous years will, of course, continue to receive these in their pension check. ❖

Director, continued from page one

simple to arrange, is virtually error-free, eliminates postal delays, and reduces the possibility of mailbox theft. This method is currently utilized by more than 90 percent of our members and provides both our members, as well as the ASRS, an enhanced comfort that the funds are where they should be on the precise date expected.

To sign up for direct deposit, or for other questions, please contact Member Services at (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson, or (800) 621-3778 outside the metro areas.

The second issue has to do with customer service related to our health insurance programs. Specifically, many retirees who participate in the ASRS health insurance program did not receive adequate customer service in December 2006 and January 2007, when a number of changes were being made that took effect January 1. After careful analysis I have determined that the service deficiencies were primarily in the areas related to the issuance of new ID cards before the new year for medical and prescription drug benefits and issues related to the transition for some members from the 2006 Secure Horizons Direct program to the new PacifiCare Senior Supplement plan for 2007.

We have determined that the causes were related to integration issues of our health insurance vendor, PacifiCare / United Healthcare and Medicare. The ASRS and PacifiCare have worked hard to identify and address problems more quickly and have implemented enhanced procedures to ensure a higher level of service quality.

On behalf of the ASRS, please accept my apologies if you were impacted by either of these issues. Although we have nearly a half million members, we still challenge ourselves to constantly troubleshoot potential problems in order to mitigate possible delays or errors - and this troubleshooting technique typically works very well. Thank you for being one of our valued members and working with us to make each day of service better than the last. We appreciate your assistance. ❖

Premiums Hold Steady for 2008

Rate Roll-backs to Help PPO Plan Members

The Arizona State Retirement System is pleased to announce that health insurance premiums and plan provisions will remain unchanged for 2008, except for the non-Medicare PPO plan, which will actually experience a rate rollback to 2006 levels.

This is good news for the more than 28,000 retirees who take advantage of the ASRS health insurance program. Holding insurance premiums steady is a testament to the negotiations that ASRS has had with PacifiCare, which has been providing various medical plans to ASRS retirees since 1989.

Accomplished during this year's negotiations:

- 2007 premiums and plan provisions will remain unchanged for 2008, except for the non-Medicare PPO plan, as described below.
- The PPO plan will revert to the plan in effect during 2006 (premiums will reduce and plan provisions will be more beneficial for our enrolled retirees). The PPO plan will change effective July 1, 2007 and premiums will remain unchanged through 2008 (an 18-month freeze on premiums).
- The only PPO plan provision that will change effective January 1, 2008 will be the prescription drug co-payments (they will go from \$10 for generic and \$20 for brand name drugs to \$20 for generic and \$40 for brand; this change will bring the PPO plan prescription drug co-payments into conformity with the other prescription drug co-pays in effect for our other plans).
- The level of deductible satisfied by PPO plan members through June 30 will carry over to the new plan on July 1 to be applied to the new plan's lower deductible.

The ASRS conducted a special enrollment in May 2007 to inform non-Medicare eligible retirees in both urban and rural Arizona of this change and allow them to elect to enroll in the PPO plan should they wish to do so.

Retirees currently enrolled in one of the 2007 PPO plans will automatically be enrolled in the more advantageous \$500 deductible plan effective July 1, 2007.

Additional changes to the PPO plan include a single in-network and out-of-network calendar year deductible instead of separate deductibles; decreased co-payments for doctor, specialist visits and routine physicals; lower out-of-pocket maximum before PPO benefits are paid at 100 percent, and decreased co-payments for prescription drugs. ❖

Annual Financial

The ASRS was created in 1953 to provide defined contribution retirement benefits to employees of the state of Arizona, Arizona universities, and political subdivisions. During calendar year 1954, Arizona teachers voted to join the ASRS effective January 1, 1955. In 1970, the state legislature authorized the creation of a defined benefit plan, contingent upon the election to transfer a minimum 70 percent of the ASRS membership. More than 80 percent voted to transfer to the defined benefit plan, which became effective July 1, 1971.

At Fiscal Year End June 30, 2006, total ASRS membership, including active, inactive, disabled and retired members is 487,518. ASRS employer members total 745, which includes school districts, charter schools, state colleges and universities, and local, county and state governments.

In addition to pension benefits, the ASRS provides a health insurance premium benefit and sponsors medical and dental coverage for retired members. Active members receive long-term disability insurance coverage equal to two-thirds of pay at the time of disablement.

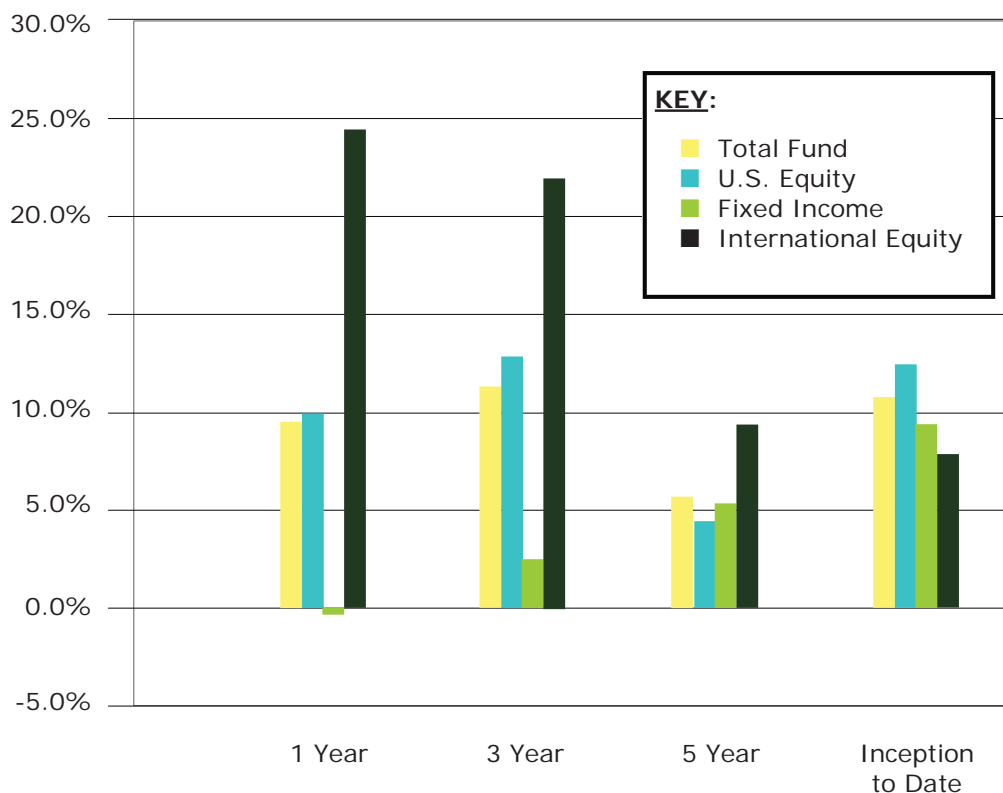
During FY 2005-06, more than 80,000 retired annuitants, survivors, and disabled members received monthly benefits totaling in excess of \$129.68 million. More than 28,000 retired members are enrolled in the ASRS-sponsored medical or dental plans.

For the past 17 years the ASRS annual reports have received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada. The 2006 annual report has been submitted to the GFOA and we anticipate earning this designation once again.

The ASRS is also pleased to announce that in 2006, the ASRS received the Pension Standards Award from the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the National Council on Teacher Retirement. This award recognizes the ASRS for "meeting professional standards for plan design and administration." ♦

Annualized Rates of Return (as of June 30, 2006)

Retirement & HBS



ASRS At-a-Glance (as of June 30, 2006)

ASRS Fund (market value)
\$24 billion

1-Yr Rate of Return
9.8%

10-Yr Avg Rate of Return
8.7%

Contribution Rate
(Employee & Employer each)
7.4% *

Funded Status of DB Plan
84.3%

Active Members
217,961

Average Age of Active Members
44.7 +

Inactive Members
184,460 +

Retired Members
80,129 **

Average Monthly Benefit
\$1,508 +

Average Age of Retired Members
69.6

LTD Members
4,968

Employer Members
735 ***

* includes 6.9% pension and 0.50% LTD rate

** includes survivor beneficiaries

*** includes 112 separate state agencies

+ from the 2005 Actuarial Valuation which was the most recent actuarial information available at June 30, 2006.

Report Summary

Plan Net Assets *(as of June 30)*

Dollars in Thousands

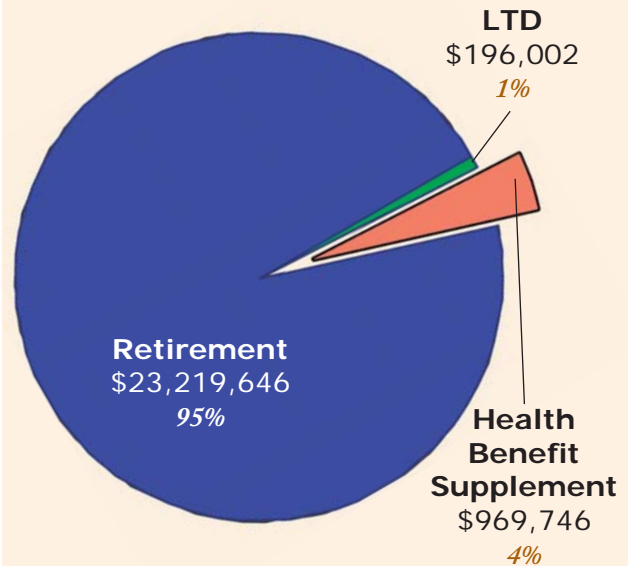
Assets	2006	2005
Cash and receivables	\$ 2,507,500	\$ 2,190,345
Investments at fair value	\$24,696,458	\$ 23,000,280
Securities lending	\$ 2,265,754	\$ 2,279,978
Total assets	\$29,469,712	\$ 27,470,603
Liabilities		
Payables for investments	\$ 2,818,564	\$ 2,583,240
Other payables	\$ 2,265,754	\$ 2,279,978
Total liabilities	\$ 5,084,318	\$ 4,863,218
Total Net Assets	\$24,385,394	\$22,607,385

Changes in Net Assets *(as of June 30)*

Additions	2006	2005
Employee contributions	\$ 612,121	\$ 442,643
Employer contributions	\$ 612,121	\$ 442,643
Member reimbursements and transfers	\$ 125,751	\$ 141,932
Investment & securities lending income	\$ 2,366,186	\$ 1,878,072
Investment & securities lending expense	(\$ 135,247)	(\$ 74,680)
Total additions	\$ 3,580,932	\$ 2,830,610
Deductions		
Retirement & disability benefits	\$1,686,090	\$ 1,558,332
Survivor benefits	\$ 17,125	\$ 18,402
Refunds & transfers	\$ 65,442	\$ 48,745
Administration & other	\$ 34,266	\$ 28,845
Total deductions	\$1,802,923	\$ 1,654,324
Net Change	\$1,778,009	\$ 1,176,286
Net assets beginning of year	\$ 22,607,385	\$ 21,431,099
Net assets end of year	\$24,385,394	\$ 22,607,385

Net Assets by Fund

(as of June 30, 2006)



Schedule of Investments

(as of June 30, 2006)

	Market Value
Corporate Equity	
Securities	\$16,743,086
Corporate Debt	
Securities	1,972,262
U.S Treasury & Government Agency	
Securities	3,858,714
Real Estate	245,787
Securities Lending	2,265,754
Temporary Investments	1,876,609
Total Investments	\$26,962,212

To view the complete
Annual Financial Report, visit:
www.azasrs.gov



New & Retiring Members: *Informational Workshops Just for You!*

The Member Services Division of the ASRS offers two educational meetings for members – a general overview of the ASRS and its benefit programs entitled “Know Your Benefits” and one designed specifically for those who are nearing retirement called “Getting Ready to Retire”. Meetings are conducted throughout the year at the ASRS offices in Phoenix and Tucson, as well as throughout the state during the Spring and Fall. Each meeting lasts approximately three hours. Members are encouraged to bring their spouse or partner.

Investments Update

The Arizona State Retirement System achieved a rate of return on its overall portfolio of 14 percent for the calendar year 2006. The total fund at the end of 2006 was approximately \$26.4 billion.

The ASRS uses an assumed rate of return of 8 percent for purposes of its funding model to ensure adequate assets to pay current and future liabilities and benefits. The fiscal year 2006 rate of return was 9.8 percent.

The ASRS uses a sophisticated asset allocation process designed to provide optimum returns with minimum risk. There are about 50 different portfolios in

the ASRS fund, with about one-third of the amount managed by ASRS staff, and the others managed by external managers. The assets are targeted for a mix of U.S. stocks (45 percent); fixed income investments (26 percent); international equities (18 percent); real estate investments (6 percent), and private equities (5 percent).

To learn more about ASRS investments, visit our website and click on “Investments”. There you’ll see performance reports for the various asset classes, as well as information on investment philosophies, goals, and a bio sheet on the ASRS investment staff. ❖

Member Publications Online!

Several member publications are available on the ASRS website, including:

2006 Comprehensive Annual Financial Report - For fiscal year ending June 30, 2006, the report provides detailed information on finances, investments, actuarial calculations and general statistics of the ASRS. It includes the audited financial statements which have been certified as a “fair and accurate” look at the fiscal stability of the retirement system.

Getting Ready for Retirement - A guide to planning your retirement. This guide covers how your retirement benefit is calculated, selecting your annuity option, filling out the necessary paperwork, information on health insurance & more!

ASRS Weekly Report - This electronic newsletter is updated weekly during the legislative session, and periodically when the legislature is not in session.

These publications are available at www.azasrs.gov. ❖



Director's Outreach Meetings

In an effort to facilitate an ongoing dialogue with members and retirees ASRS Director, Paul Matson, has scheduled two new Director's Outreach Meetings as part of a continuing series for 2007. These informal meetings provide an open forum in which to share ideas and ask questions related to the retirement system.

Director's Outreach meetings are scheduled for:

Tucson – Tuesday, August 14
11:30 AM, ASRS Tucson Office,
7660 E. Broadway Blvd.,
Suite 108

Flagstaff – Tuesday, August 28
11:30 AM, Flagstaff City Hall,
Council Chambers,
211 W. Aspen Avenue

No reservations are required.

**FOR MORE
INFORMATION, CALL:
(602) 240-2016**

Workshops Just for You!

“Getting Ready to Retire”

This meeting is vital for members who are planning to retire within a year. You'll learn about your pension benefit and how it's calculated, options for retiree health insurance and other benefits, return to work options and more. Members who register for this meeting will receive a personal benefit estimate and assistance in filling out the proper paperwork.

“Know Your Benefits”

This meeting is especially beneficial to new members. You'll learn about the many benefits of belonging to the ASRS, including a history & overview of the ASRS, how your pension is calculated, how to maximize your future benefit, member responsibilities, disability & survivor benefits, options should you leave ASRS employment and more. Also covered will be the Service Purchase benefit.

View the complete schedule of workshops online at www.azasrs.gov. Click on “calendars”.
To reserve your spot, contact ASRS Member Services. • In Phoenix: (602) 240-2000
In Tucson: (520) 239-3100 • Outside the Metro areas: (800) 621-3778

ASRS Welcomes New Trustees

The Arizona State Retirement System welcomes two new members to the ASRS Board of Trustees.

Recently appointed to the nine-member Board by Gov. Janet Napolitano were **Thomas J. Connelly** and **James J. McLaughlin**.

Mr. Connelly, President and Chief Investment Officer of Versant Capital Management Inc., has more than 20 years' experience as an investment advisor. He holds the professional designations of Certified Financial Planner™ (CFP®) and Chartered Financial Analyst (CFA). Mr. Connelly, of Phoenix, will serve as a Public representative on the Board.

Mr. McLaughlin is President of Local 99 of the United Food and Commercial Workers Union in Phoenix. He has held a number of positions with the union, the largest in Arizona. A resident of Gilbert, Mr. McLaughlin also serves as a Public representative on the Board.

Re-appointed for a second three-year term to the Board by Gov. Napolitano was **Jaime Gutierrez**. Mr. Gutierrez, Assistant Vice President for Community Relations at the University of Arizona, represents Educators on the Board.

The ASRS wishes to acknowledge the many years of service to members and retirees from **Karl L. Polen Jr.**, and **Anne Mariucci**, whose terms as Trustees recently expired. Their expertise and dedication to their positions as Trustees was invaluable and greatly appreciated.

To learn more about the ASRS Board of Trustees, including biographies on current members as well as meeting schedules, agendas and minutes, please visit our website, www.azasrs.gov. ♦

ASRS Board of Trustees

Michael Townsend, Chair

Political Subdivisions Representative (Flagstaff)

Dr. Keith Meredith, Vice Chair

Member at Large (Tucson)

David Byers

State Employees Representative (Phoenix)

Thomas Connelly

Public Representative (Phoenix)

Jaime Gutierrez

Educators Representative (Tucson)

Christopher Harris

Public Representative (Phoenix)

James McLaughlin

Public Representative (Gilbert)

Lawrence Trachtenberg

Public Representative (Scottsdale)

Steven Zeman

Retirees Representative (Phoenix)

Executive Staff

Paul Matson

Director

Anthony Guarino

Deputy Director, Chief Operations Officer

Gary Dokes

Chief Investment Officer



Arizona State Retirement System

Financial Horizons

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(520) 239-3100

Outside Metro Areas:

Toll-free (800) 621-3778

TTY For Hearing Impaired:

(602) 240-5333

ASRS Wants You to Know...

The Arizona State Retirement System (ASRS) does not seek unsolicited information from members or retirees via email, by telephone, or by coming to your home.

We have received reports from members who have been solicited for personal information and perhaps fraudulent attempts to review their pension balances. The ASRS will never request information in this manner.

If you receive a suspicious solicitation of this nature, please report it to the ASRS immediately.

Comments?

ASRS Financial Horizons is published periodically and mailed to retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers:

Financial Horizons, Editor

P.O. Box 33910

Phoenix, AZ 85067-3910

Keep ASRS Informed!

It is vital for members to keep the ASRS informed of changes in their personal lives so that we can be sure your account information is accurate and up-to-date. Be sure to report:

- A change of address, phone number or email address
- A change in marital status
- A name change due to marriage, divorce or other circumstance
- A change or addition to your desired beneficiary or beneficiaries

Members can obtain forms to accommodate these changes on the ASRS website, under the **Forms** section, or by calling our Member Service Advisory Center at any of the numbers listed in the Contact Us box above.